

**Courtesy Update:
Community Water Company Activities and Intentions**

Dear Commission,

Community Water Company (“Company”) is submitting this courtesy update to inform the Public Service Commission (“PSC”) about various Company activities related to PSC Docket No. 16-098-01. The Company believes there is not yet a need for formal PSC filings, but feel the breadth and scope of Company activities merits a courtesy notice. Over the last few months the Company has informally consulted with Mark Long of the Utah Division of Public Utilities and Patricia Schmid of the Utah Attorney General’s Office. These discussions have been helpful in directing our activities in a manner hopefully acceptable to the PSC.

As discussed during the Company’s recent rate case, the Company’s parent company, TCFC, does not desire to own a water utility. The Company is seeking to transfer ownership to an established water provider than can better serve customer needs. The goal of the activities discussed herein is to culminate an Application to Terminate the Company’s Certificate of Public Convenience and Necessity, transfer the Company to Summit Water Distribution Company (“SWDC”), and to finance and begin construction on urgently needed water system repairs. The Company has taken a number of steps in furtherance of these goals.

In addition to various transfer activities, the Company’s primary water storage tank recently failed affecting the Company’s ability to meet fire flow storage requirements. To protect public health and safety, the Company has implemented outdoor watering restrictions under Tariff No.3 Rule and Regulation No.8. Under the restriction, customers are prohibited from all outdoor watering. The Company is diligently working to resolve this problem and aims to return full water service as soon as possible.

The last few months have been busy. Many Company activities are occurring simultaneously and are often interrelated. During this time we have made good faith efforts to keep our customers informed and invite their input to inform decision making. We believe these efforts have led to a greater understanding of and customer support for the Company transfer and associated activities. We appreciate the PSC’s patience as work through these many matters and please do not hesitate to contact the Company with questions or requests for additional information.

This courtesy update covers the following activities:

- I) Storage Tank Failure, Outdoor Watering Restrictions, and Private Tank Financing
- II) Utah Division of Drinking Water State Revolving Fund Loan for Water System Improvements
- III) Transfer of Company to SWDC and Application to Terminate Company Certificate of Public Convenience and Necessity.

COMPANY UPDATE

D) STORAGE TANK FAILURE, OUTDOOR WATERING RESTRICTIONS, AND PRIVATE TANK FINANCING

As discussed during the rate case for Docket No. 16-098-01, the Company's system has been underfunded for decades and is in need of significant repairs. Unfortunately, this neglect is beginning to translate into serious system failures that threaten sustained and safe water delivery.¹

i) Water Storage Tank Failure.

On April 17, 2017, the larger of the Company's two bolted-steel water storage tanks experienced a catastrophic failure resulting in complete shutdown of the tank. (Attachment A). The tank is now considered unusable and cannot store water for Company needs. Since the tank failure the Company has taken a number of steps to assess the gravity of the situation, inform and solicit customer input, and find a timely and cost effective solution.

After the failure, the Company met with the Summit County Fire Department and SWDC as the operator of the system. It was determined under the present conditions the Company cannot meet its 120,000 gallon fire flow requirements and provide outdoor watering to its customers. To alleviate customer concerns, the Company explored several alternatives to provide outdoor water. However, the Company's storage is so diminished, even a rotating watering schedule threatens fire flow requirements and supplemental irrigation water from SWDC is not available. Accordingly, to protect public safety, under Company Tariff No. 3 Rule and Regulation 8, the Company has instituted a restriction on all outdoor watering until further notice – most likely when the new tank is installed. (Attachment B).

Customers have been informed that if found watering contrary to the restriction they will first receive a written courtesy notice to cease outdoor watering. If outdoor watering continues after the courtesy notice is issued, under Tariff No. 3 Regulation F7 and Utah Admin Code. R746-200-7(F) the Company has the ability to terminate service for emergency purposes without notice. Service will be reconnected upon request of the Customer and payment of the \$25 reconnection fee. Customers have also been informed that under Company Tariff No.3 Rule and Regulation 11, the Company is making all reasonable and diligent efforts to provide full water service as soon as possible and is not liable for damages caused by disruptions to service based on scarcity and accidents to its water works.

ii) Water Storage Tank Replacement

The Company has diligently worked to find a timely and cost effective solution to replace the storage tank. On June 1, 2017, the Company held a customer meeting, including representatives from SWDC and the Summit County Fire Department, to discuss the diminished state of the Company's water system and the public safety reasons for instituting the outdoor watering restriction. At this meeting several options for tank replacement were discussed, including purchasing and installing a temporary bladder to insert into the damaged tank and the funding timeline under the PSC special assessment

¹ The Company's largest water source, the Gulch Well, also failed in April but the Company was able to remedy the situation without serious disruption to water service.

process and the Utah Division of Drinking Water State Revolving Fund Loan (“DDW SRF Loan”), discussed more below.

After the June 1st meeting, the Company further investigated the multiple options discussed. (Attachment C). The Company has determined the best course of action is to immediately replace the damaged storage tank. The replacement tank is a 450,000 gallon bolted steel tank similar to, but upgraded from, the damaged tank. The damaged tank will not be reused or repurposed. It must be disassembled and disposed of. The cost of the new tank is approximately \$300,000, demolition of the existing tank and minor repairs to the Willow Draw ski-run are approximately \$50,000, and base excavation and prep work is estimated to be \$100,000, but may vary depending on final design and contractor bids. Accordingly, the estimated cost for the tank replacement is about \$450,000.

Time is of the essence as the construction window in Park City is extremely short and there is a pressing need to return to full water service. The Company has secured a contractor to demolish the existing tank and anticipate demolition being complete by early July 2017. We have commenced tank design work and anticipate expedited approval from the DDW to also be complete by early July 2017. Bidding for contractors is intended to be complete by mid-July 2017 and initial pad work complete by early August 2017. Tank manufacturing will be complete by early September and installation complete by early October. We are aiming to have a DDW operating permit and the new tank functioning sometime in October 2017.

iii) Financing Tank Replacement

The Company completed a rate case in December 2016 to establish a Maintenance and Operations rate (“O&M Rate”) sufficient to cover the routine maintenance and operations costs of the Company. The final rate was a base rate of \$30.65 and \$.70 per 1000 gallons for the first 12,000 gallons followed by tiered 12,000 gallon blocks of per 1000 gallon chargers where each 12,000 gallon tier doubled the usage amount charged. As discussed throughout the rate case, this rate was not intended to cover the needed capital improvements to the Company system. While the O&M Rate includes an annual capital reserve account of \$52,010, little money has accrued under the new rate instituted in January 2017 and the amount is woefully insufficient to fund a tank replacement.

Unfortunately, funding the tank through the DDW SRF Loan and/or the PSC assessment process would delay construction of the tank till Summer 2018. Accordingly, to move forward with quickly installing the needed storage tank, the Company has secured financing for tank replacement from its parent company. These funds will be repaid through customer assessments or other arrangement between SWDC and TCFC - to be determined pending the resulting transfer and future structure Community Water Company, discussed below.

In the unlikely event the Company is not transferred to SWDC and remains a regulated utility under PSC jurisdiction, the Company will initiate a special assessment proceeding before the PSC to adjust the Company’s water rates to include repayment of the tank funding and the debt service for the larger DDW SRF Water System Loan (discussed below).

iv) Compliance with PSC Project Notification Rules

Utah Administrative Code R746-401-3(4) requires regulated entities file a report with the PSC for expenditures in excess of five (5) percent of gross investment in the utility plant at least thirty (30) days before the purchase or acquisition of the asset of project. However, the rule is not applicable to “replacement of existing utility assets.” Utah Administrative Rule R746-401(1). The Company has presently expended funds for tank design work but the Company has not yet expended the bulk of the estimated \$450,000 to demolish, construct, and install the tank.

The Company does not believe it needs to submit a report under Utah Administrative Rule R746-401-3(4) as the tank is a replacement of an existing utility asset. Additionally, the Company intends to soon file an Application to Terminate its Certificate of Public Convenience and Necessity and complete the transfer of the Company to SWDC by late summer/early fall 2017. If granted, Company finances, such as ongoing expenditures and repayment of tank costs, will be privately managed by the new Community Water Company entity and SWDC. Details regarding the Company transfer and the financial management will be more discreetly addressed in the Company’s forthcoming Application to Terminate.

In an abundance of the caution, the Company is alerting the PSC to the tank project and associated costs. While the Company does not believe a formal report is needed, the Company is willing to provide any further information the PSC requests.

II) UTAH DIVISION OF DRINKING WATER STATE REVOLVING FUND LOAN FOR WATER SYSTEM IMPROVEMENTS

The Company’s water system is in dire need of repairs. The Company has been underfunded for decades resulting in a dilapidated and deteriorating water system. The water tank failure exemplifies the state of the Company’s system and the insecurity surrounding the Company’s ability to provide safe and reliable water service. Unfortunately, the recently implemented O&M Rate is designed to only cover operation and maintenance costs and not raise funds for needed capital improvements. Additionally, condition of transferring the Company to SWDC is making a number of needed improvements to the Community water system.

i) DDW SRF Water System Loan.

To finance these needed improvements, the Company applied for a Division of Drinking Water State Revolving Fund Loan (“DDW SRF Water System Loan”). SWDC, as the current and future operator of the Company system, assisted in identifying the needed improvements to include in the loan request. The loan application requested funds to replace deteriorating transmission and distribution lines, looping other transmission lines, installation, replacement, and repair of over 140 service meters, installation of a pressure reducing valves, completing and interconnect with SWDC, and retrofitting the water treatment plant to increase capacity. Like the Company’s communications with the PSC, the Company’s loan application and discussions with DDW have accounted for the intended transfer of the Company to SWDC.

The loan application was approved by the Board of Drinking Water on May 12, 2017. The final approved terms are a loan for up to \$3,662,000 with a repayment period of 20 years at an annual interest rate of 3.39%. The loan amount will be reduced by \$450,000 to account for the private financing of the tank project discussed above. Additionally, the Company’s repayment obligations will only be for the

actual costs expended based on more thorough design and competitive bidding on the improvement projects.

The Company and SWDC are presently in discussions with DDW regarding commencing the necessary loan closing requirements. Though not official loan closing requirements, we have included filing an Application to Terminate the Company's Certificate and the various Company transfer activities as necessary closing activities. We anticipate closing on the loan by November of 2017. Withdrawals on the loan will begin in early 2018 to fund construction and the first loan payment is not due to DDW until January 2019.

The debt service on the DDW SRF Water System Loan is intended to be repaid by Company customers to DDW through water rates, special assessments, or other arrangement once the Company is transferred to SWDC. Currently we estimate that water rates, SWDC operations and maintenance fees, tank repayment, and debt service on the DDW SRF Water System Loan will be about \$85-\$95 dollars a month per customer. The Company has retained Bowen Collins & Associates to conduct an official rate study. The exact structure of the transfer and customer water rates after the transfer will be more thoroughly discussed in our Application to Terminate the Company's Certificate.

In the unlikely event the transfer to SWDC does not occur and the Company remains under PSC jurisdiction, the Company will seek to commence a capital improvement rate case under PSC rules. This rate should account for tank funding and debt service on the DDW SRF Water System Loan. The Company has been careful to request items it feels would be appropriate to be included a PSC rate. Additional, through the DDW SRF Loan process the Company will have specific engineering, design, and bid information to support a speedy and thorough capital improvement rate case.

ii) Customer Participation and Support.

The Company has established a good working relationship with its customers. We appreciate their participation in Company matters and feel the O&M Rate case was better for their involvement.

Continuing this dialogue, the Company has held several customer meetings to discuss the loan application process, approval, and impact. The Company held a meeting on March 7, 2017, with interested Company customers to discuss the DDW SRF Water System Loan application. Additionally, at the June 1, 2017, which was primarily scheduled to discuss the tank replacement project, we also discussed the approved loan, loan closing requirements, and the transfer of the Company. The conversation was very productive.

The Company has a follow up customer meeting scheduled for June 20, 2017, to more specifically discuss the loan approval, intended water system improvements, structure of the transfer of the Company to SWDC, and structure of anticipated SWDC water rates or special assessments to repay tank funding and the DDW SRF Water System Loan debt service.

It is very important to the Company its customers understand the Company's motivations and actions. The Company has worked diligently on behalf its customers to find financing to remedy the numerous system deficiencies, facilitate a transfer to a more established water provider, and work with customers to find and emergency replacement for the Company's damaged storage tank. We anticipate these efforts

will lead to customer support for the Company's Application to Terminate its Certificate of Public Convenience and Necessity and Company transfer to SWDC.

III) COMPANY TRANSFER TO SWDC AND FORTHCOMING APPLICATION TO TERMINATE PUBLIC CERTIFICATE OF CONVENIENCE AND NECESSITY.

The Company is presently working with SWDC to finalize the terms of a transfer of the Company to SWDC.² We have reached a tentative agreement on the basic terms and are now solidifying the details of the transfer. We are circulating DRAFTS of various written agreements and other documents needed to facilitate the transfer. We aim to have the transfer arrangements and documents finalized and ready to sign by late summer.

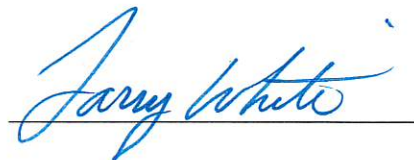
A crucial component of this transfer is the Company leaving PSC jurisdiction. We understand it is uncommon for a regulated entity to leave PSC jurisdiction. The Company has discussed the matter with Patricia Schmid who provided the suggestion of filing an Application to Terminate the Company's Certificate of Public Convenience and Necessity. This application should demonstrate the Company meets similar requirements to those seeking an exemption from PSC regulation and explain how Company customer interests will be protected once outside of PSC jurisdiction. It is unclear how much notice the PSC needs for this filing, how long termination will take, or if the PSC will desire a hearing on the matter. The Company would appreciate any guidance from the PSC on this matter.

Presently, as soon we have finalized our transfer structure and associated issues, the Company intends to file the Application to Terminate. This application will clearly explain the structure of the new Community Water Company entity, how Company customers are to be incorporated into the new entity/SWDC, the components and structure of customer water rates, and the extent of customer support for the transfer. Our hope is that PSC will find the new arrangement adequate for terminating the Certificate and allow the Company to move forward with the transfer.

CONCLUSION

As can be seen, the Company has been very busy. These last few months have been very productive and the Company has a positive outlook for the future. Considering the breadth of activities the Company saw it prudent to provide the PSC this Company update. Please do not hesitate to contact us with questions or requests for more information.

Regards,

A handwritten signature in blue ink that reads "Larry White". The signature is written in a cursive style and is positioned above a horizontal line.

² This information is also necessary to complete the closing requirements of the DDW SRF Water System Loan.